MANAGEMENT BY OBJECTIVES (MBO)

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OBJECTIVE SETTING

In an MBO, good goals are SMART goals:

WORK

S specific

M measurable

A achievable

R result oriented

T time-related

HAVE

S

U

C

C

E

S

S

WHAT IS MBO ?

Peter Drucker, **(1954, "The Practice of Management")**

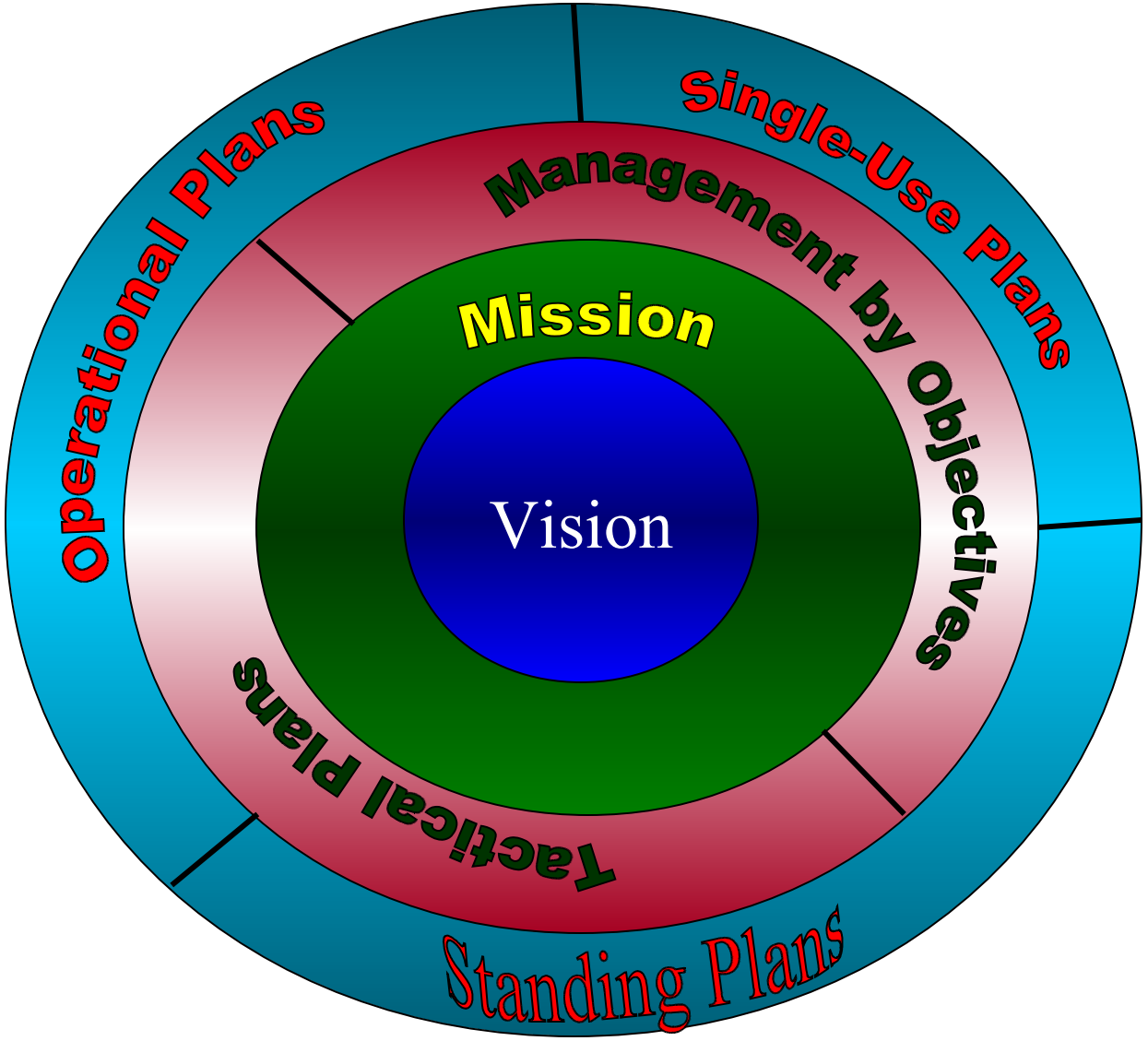
- Is a systematic and organized approach that allows management to ***focus on achievable goals*** and attain the best possible results from available resources
- Aims to increase individual and organizational effectiveness by ***aligning organizational goals and subordinate objectives***
- Clarifies and quantifies objectives to allow for ***monitoring, evaluation, and feedback*** throughout the hierarchy of objectives

IN SIMPLE WORDS, MBO IS…

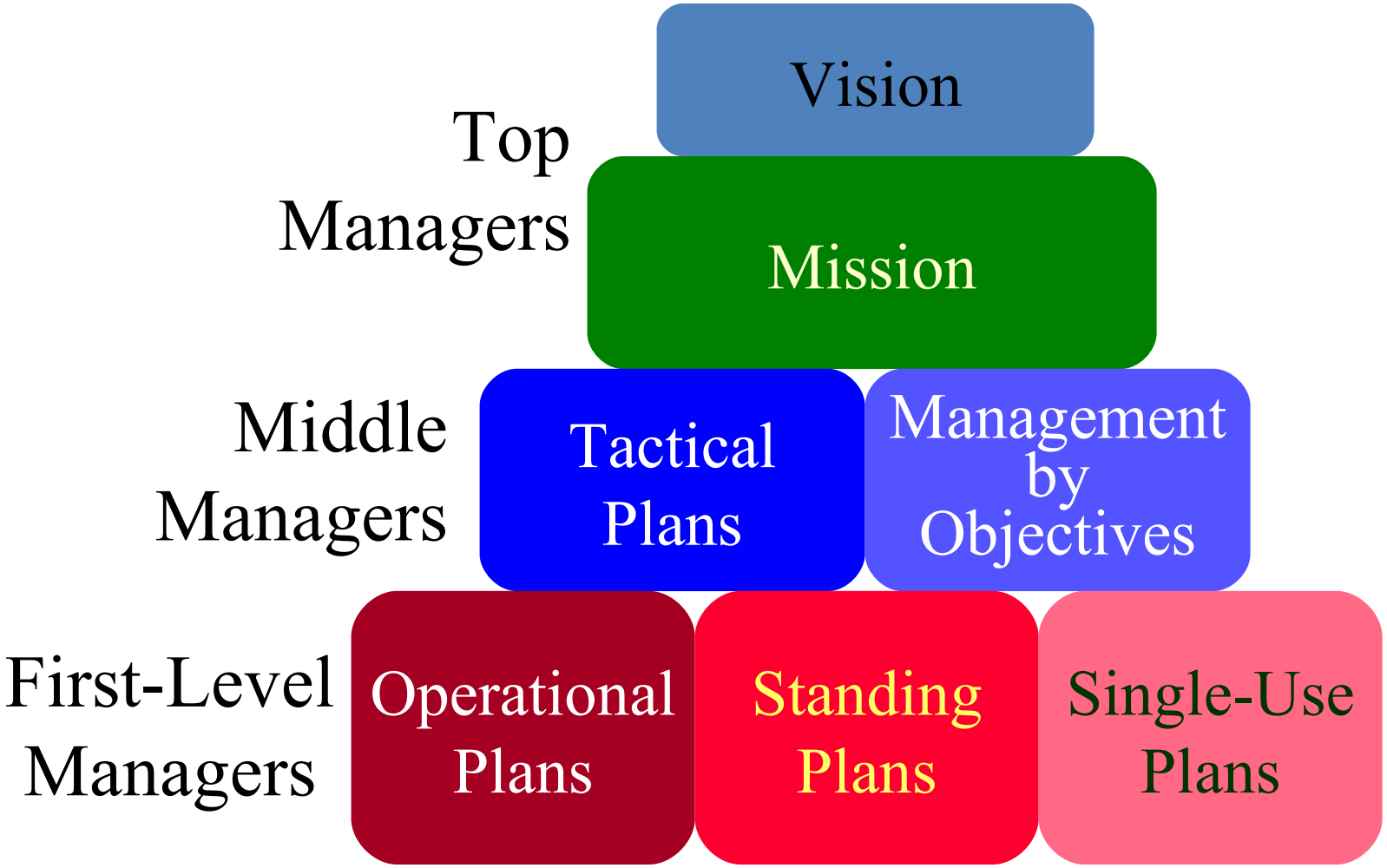
- **MBO** emphasises the importance of objectives as a tool to be used by managers in fulfilling their managerial roles (accomplish their tasks)

- Divide problem into manageable, “bite-size” chunks

MBO; PLAN VIEW



MBO; CROSS SECTION



- ***Single-use Plans*** are developed to achieve objectives that are not likely to be repeated in the future. Single-use plans include both programs and projects.
- ***Standing Plans*** are used to provide guidance for tasks performed repeatedly within the organization. The primary standing plans are organizational policies, rules, and procedures.
- ***Operational Plans*** are used to identifies specific results to be accomplished within a given short term time period. Contain detailed information used in the lower levels in an organization.

FEATURES OF MBO

Peter Drucker also stated that:

- For the business to succeed, the managers and employees must work towards a common goal
- Managers must identify and agree targets for achievement with subordinates
- Managers must negotiate the support needed to achieve the targets with subordinates
- Evaluate the objectives over time

MBO AIM

- Short and long-term planning
- Optymalization of organization structure
- Better work and collaboration quality

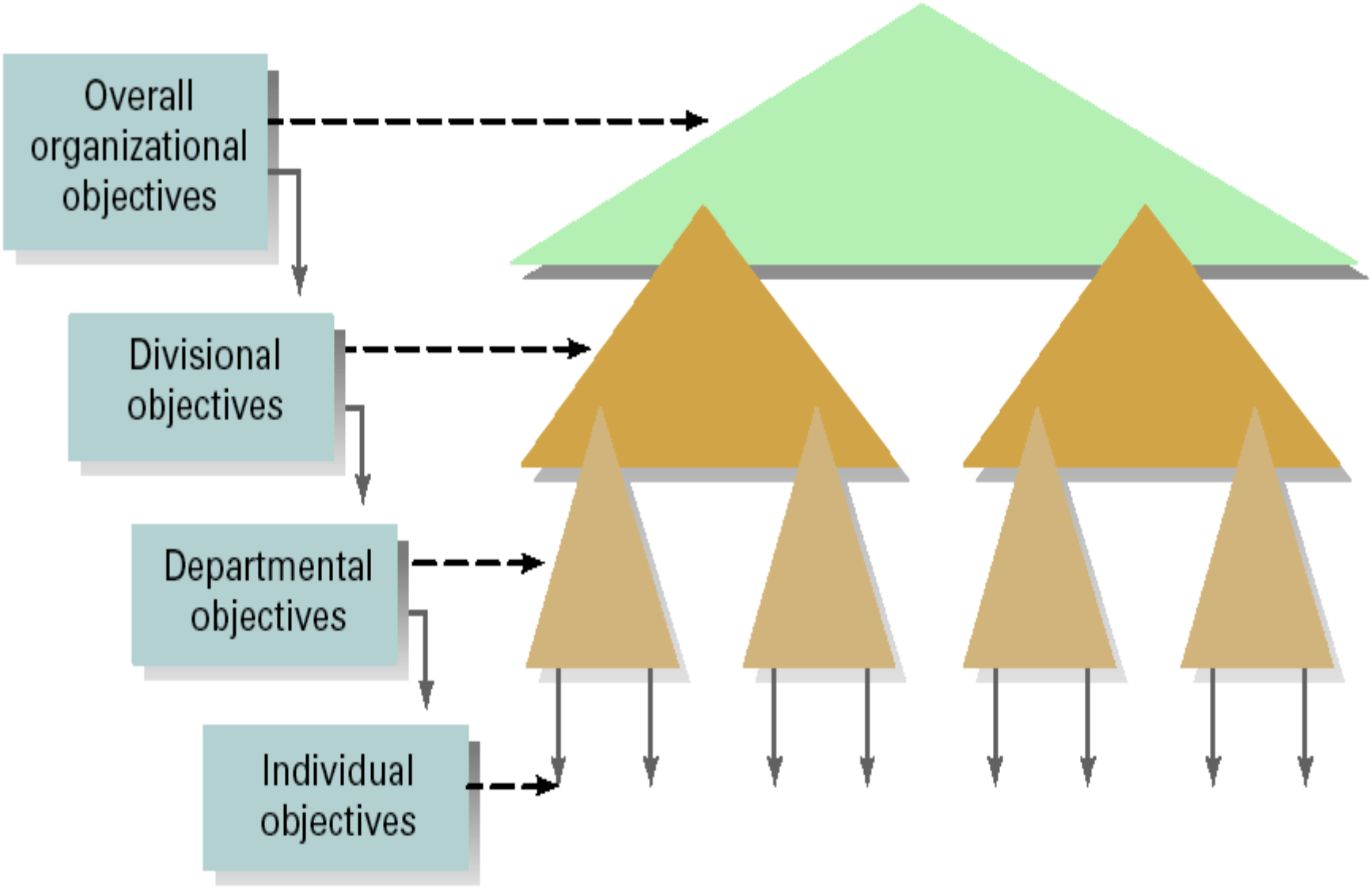
Appraisal based on objective results

BONUSES

MBO PRINCIPLES

1. Cascading of organizational goals and objectives
2. Specific objectives for each team member
3. Participative decision making
4. Explicit time period
5. Performance evaluation & feedback

CASCADING OF OBJECTIVES



ADVANTAGES OF MBO

- Improves employee motivation
- Improves communication in the organisation
- Flags up and highlights training needs required to achieve objectives
- Improves overall performance and efficiency
- Attainment of goals can lead to the satisfaction of Maslow's higher order needs

MASLOW'S NEEDS THEORY

"We each have a hierarchy of needs that ranges from "lower" to "higher." As lower needs are fulfilled there is a tendency for other, higher needs to emerge."

Daniels, 2004

Maslow's theory maintains that a person does not feel a higher need until the needs of the current level have been satisfied. Maslow's basic needs are as follows:

MASLOW'S NEEDS THEORY

- Achieve full potential, Fulfillment
- Self-Respect, Self-Esteem, Respected by Others
- Affection, Acceptance, Inclusion
- Protection, Stability, Pain Avoidance, Routine/Order
- Food, Air, Water, Sex, Clothing

DISADVANTAGES OF MBO

- May demotivate staff if targets are too high and unrealistic, also if imposed rather than agreed
- Requires the cooperation of all employees to succeed
- Can be bureaucratic and time consuming (meetings, feedback)
- Can encourage short-term rather a more focused long-term growth
- Objectives may go out of date and can restrict staff initiative and creativity
- Setting targets for certain specialised employees may be difficult

IS MBO SUITABLE FOR EVERY BUSINESS?

- MBO could be suitable for a medium to large business, using a democratic approach to management and operating in a stable market
- The overriding issues therefore are size of the business, the leadership style it uses and the rate of change in the market it operates.

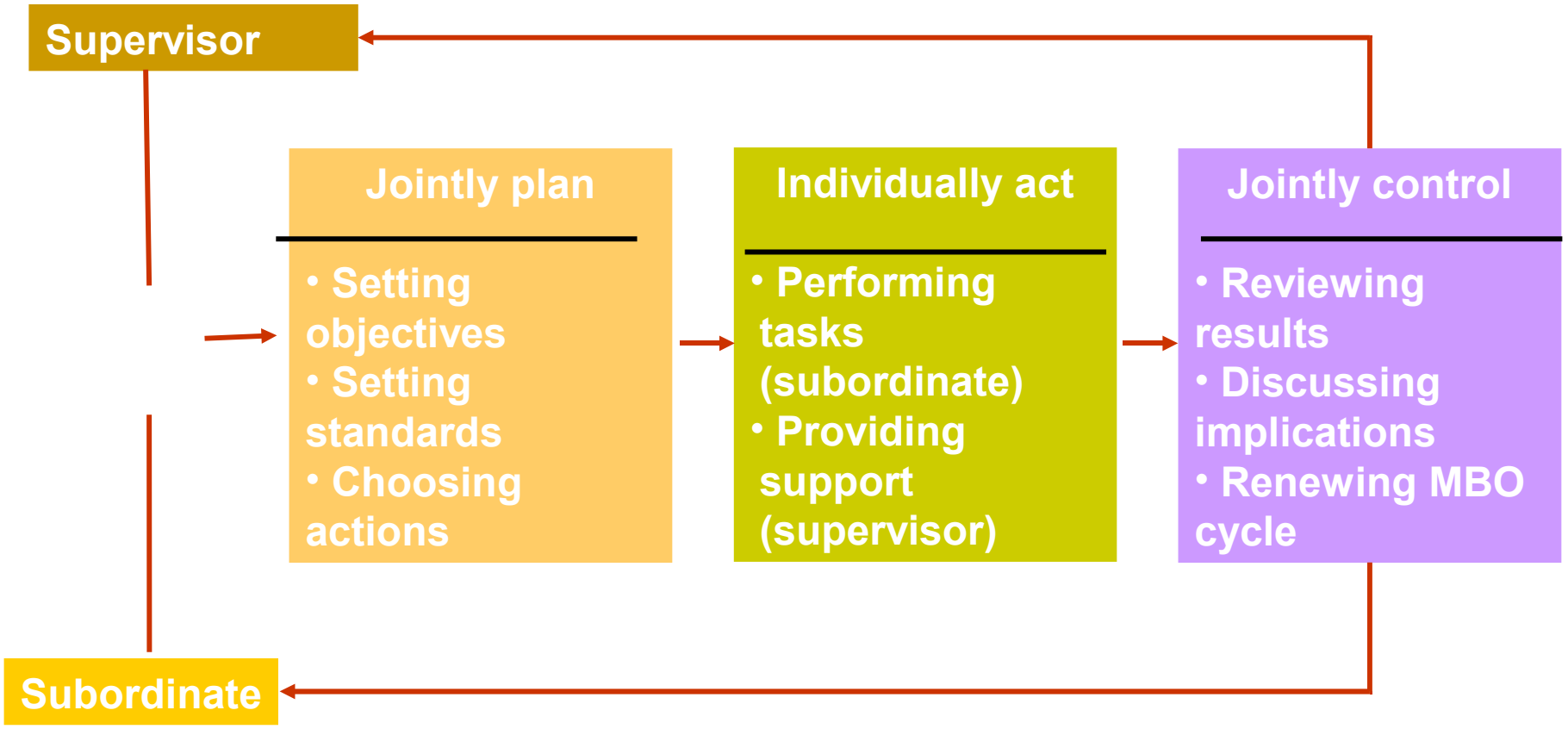
HOW MBO WORKS

- Jointly identify common goals.
- Define major areas of responsibility in terms of results expected.
- Use measurements as guides for operating and assessing contributions of members.

UNDERLYING PURPOSES OF MBO

1. Clarify organization's goals and plans at all levels.
2. Gain better motivation and participation from organization's members.

MBO; FRAMEWORK CONCEPT



PHASES OF MBO

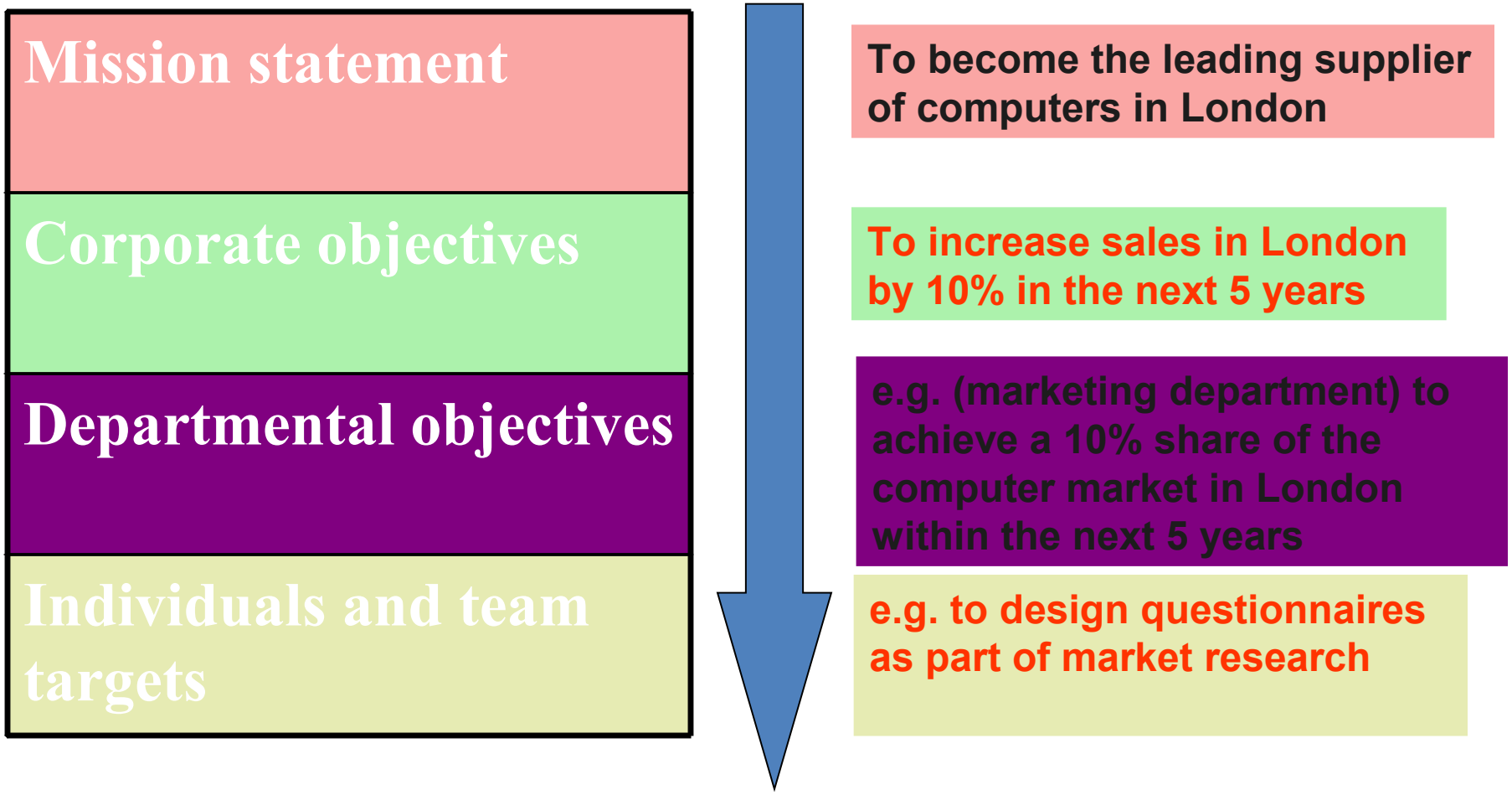
1. Top management team studies system.
2. Team sets up methods of measuring performance.
3. Goal-setting sessions are held at all levels of organization.

STEPS FOR MBO

ESSENTIAL STEPS FOR MBO

- **Set Goals (The most difficult step)**
  - What are we trying to accomplish?
- **Develop Action Plans**
  - "What do we need to do to get there?"
  - Groups and individuals
- **Review Progress**
  - "How are we doing?"
  - Periodically (How Often?)
  - Does plan need to be tweaked?
- **Appraise Performance**
  - Rewards?

e.g. HOW TO SET CORPORATE OBJECTIVES


Mission statement
Corporate objectives
Departmental objectives
Individuals and team targets
To become the leading supplier of computers in London
To increase sales in London by 10% in the next 5 years
e.g. (marketing department) to achieve a 10% share of the computer market in London within the next 5 years
e.g. to design questionnaires as part of market research

SOURCES OF MBO FAILURES

1. **Lack of top management commitment and follow through on MBO.**

1. **Employees' negative beliefs about management's sincerity in its efforts to include them in the decision-making process.**